

02/10/2022 11:18:17 [BI] Bloomberg Intelligence

CANADA INSIGHT: Truck Backups Could Drive 1Q GDP Into Reverse

By Andrew Husby (Economist)

(Bloomberg Economics) -- As truckers and other protesters snarl Canada-U.S. border crossings, factory production and sales on both sides of the border are starting to suffer. An extended delay would reverse progress clearing supply-chain disruptions, particularly in the auto sector.

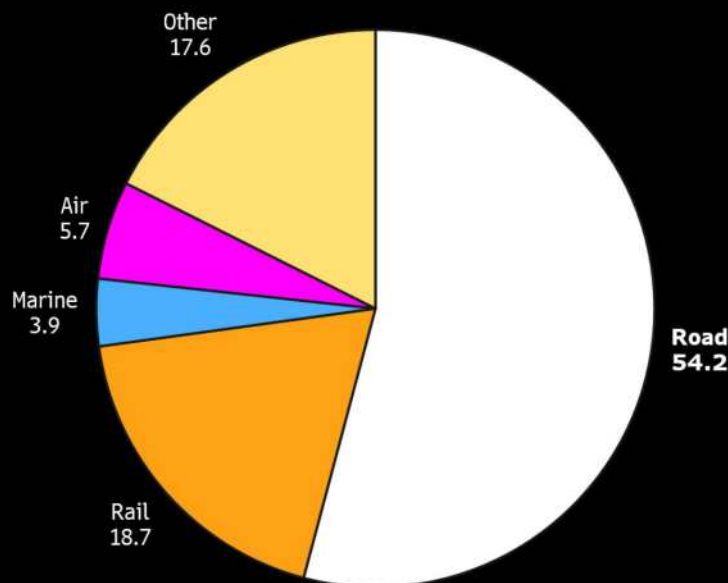
The impact on growth just from the trade channel could approach 0.1 percentage point on annualized GDP growth for each week that important crossings experience major slowdowns. Indirect effects could amount to an extra 0.2–0.3 ppt, though reroutings or a quick resolution would limit the damage. Ahead of the protests, our projection for Canada's 1Q GDP growth was 0.7%, down from an estimated 6.0% gain in 4Q. The longer the protests continue, the higher the chances of an outright contraction will rise.

- Roughly half of Canada's exports to the U.S. travel by road. With the U.S. accounting for about three-quarters of Canada's total exports, nearly 40% of Canada's total exports are overwhelmingly exposed to 12 major border crossings.
- The largest, the Ambassador Bridge connecting Windsor, Ontario and Detroit, Michigan, is experiencing the most acute effects. The crossing accounted for about 28% of Canada's total road exports to the U.S., and about 11% of total Canadian exports in 2020.
- Two out of the three largest thoroughfares have been subject to protests or slowdowns, and another in Alberta was snarled earlier in February. Beginning in January, truckers entering Canada were required to be fully vaccinated against Covid-19.
- The Bank of Canada likely will look through the damage, aware that activity lost in 1Q will largely be made up over time. The inflation outlook would also tend to tilt higher on prolonged supply shortages, leaving intact the case for rate hikes. Interest-rate hikes in March and April remain our base case.

More Than Half of Canada's Exports to U.S. Go by Road

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Share of Exports to U.S., by Mode (2020)



Source: Transport CanadaSource: Transport Canada

Gauging the GDP Impact

- The net impact on GDP growth will depend in part on the relative damage to exports versus imports in the first quarter. In 2020 exports by road exceeded imports by about 10%, according to the latest full-year data from Transport Canada. Provided both directions of travel see slowdowns -- conditions have varied by the day -- that favors a net drag on growth.
- The same pattern -- exports exceeding imports -- held for the three major crossings that have been subject to slowdowns or shutdowns in recent days, which are marked in red in the table below.
- Indirect spillovers are harder to measure but would accumulate the longer disruptions last. Effects include lost production, sales, and inventory depletion.
- With no easy solution, frustration is likely to grow. Prime Minister Justin Trudeau is holding firm on vaccine mandates, local authorities prefer to keep negotiations calm, and blockades have had staying power thus far.

Road Exports By Crossing, Including Share of GDP per Week

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	Road exports to U.S., 2020 (CAD Billion)	Road imports from U.S., 2020 (CAD Billion)	Total road trade, 2020 (CAD Billion)	Share of road exports to U.S. (%)	Share of road imports from U.S. (%)	Share of Total Canada exports (%)	Share of Total Canada imports (%)	Est. % of GDP, per week (exports)	Est. % of GDP, per week (imports)
Windsor-Ambassador, Ontario	58	53	111	28	28	11	9	0.05	0.05
Fort Erie/Niagara Falls, Ontario	36	27	63	17	14	7	5	0.03	0.02
Sarnia, Ontario	35	26	61	17	14	7	5	0.03	0.02
Lacolle, Quebec	15	7	21	7	3	3	1	0.01	0.01
Emerson, Manitoba	10	11	21	5	6	2	2	0.01	0.01
Pacific Highway, British Columbia	11	10	20	5	5	2	2	0.01	0.01
Landsdowne, Ontario	11	7	18	5	4	2	1	0.01	0.01
Coutts, Alberta	7	5	12	3	3	1	1	0.01	0.00
North Portal, Saskatchewan	3	6	9	1	3	1	1	0.00	0.01
Huntingdon, British Columbia	3	1	4	1	1	1	0	0.00	0.00
Woodstock, New Brunswick	3	1	4	2	0	1	0	0.00	0.00
Philipsburg, Quebec	3	1	4	1	1	1	0	0.00	0.00
Kingsgate, British Columbia	2	2	4	1	1	0	0	0.00	0.00
St. Stephen, New Brunswick	2	1	3	1	1	0	0	0.00	0.00
Other	9	32	41	5	17	2	6	0.01	0.03
Total road trade to U.S.	208	189	397	100	100	40	34	0.19	0.16

Note: Crossings in red have been subject to slowdowns or blockages.

Source: Transport Canada, Statistics Canada, Bloomberg Economics calculations

To contact the economist on this analysis:

Andrew Husby (Economist) in New York at ahusby1@bloomberg.net

To contact the editor responsible for this analysis:

Michael S. Arnold at marnold48@bloomberg.net

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